

believes it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve the proposed rule change on an accelerated basis.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to the file number in the caption above and should be submitted by November 27, 1995.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,<sup>11</sup> that the proposed rule change (SR-CBOE-95-56) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>12</sup>

Margaret H. McFarland,  
Deputy Secretary.

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[Release No. 34-36441; File No. SR-CBOE-95-64]

#### **Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval to Proposed Rule Change by the Chicago Board Options Exchange, Incorporated and Amendment Nos. 1 and 2 to the Proposed Rule Change, Relating to Position Limits on the S&P 500/Barra Growth Index and the S&P 500/Barra Value Index**

October 31, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 20, 1995 the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange submitted to the Commission Amendment Nos. 1 and 2 to the proposal on October 26, 1995.<sup>3</sup> The Commission is approving this proposal, as amended, on an accelerated basis.

#### **I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The Exchange proposes to revise the positions limits applicable to the S&P 500/Barra Growth Index and the S&P 500/Barra Value Index.<sup>4</sup> (The S&P 500/Barra Growth Index is sometimes hereinafter referred to as the "Growth Index," the S&P 500 Barra Value Index is sometimes hereinafter referred to as the "Value Index," and the Growth Index and the Value Index are sometimes hereinafter collectively referred to as the "Indexes.") The position limits are being revised to account for the rebasing of the Indexes. The text of the proposed rule change is available at the Office of the Secretary of CBOE and at the Commission.

#### **II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below

and is set forth in sections (A), (B), and (C) below.

#### **(A) Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change**

The purpose of the proposed rule change is to reduce the contract position limits for the Indexes consistent with the recent rebasing of the Indexes by Standard & Poor's ("S&P"). The Indexes are maintained by Barra, Inc. ("Barra") pursuant to an agreement between Barra and Standards & Poor's ("S&P"). The Value Index and Growth Index represent a partition of the S&P 500 Stock Index and, like options on the S&P 500 ("SPX options"), Value options and Growth options are cash-settled, European-style and A.M.-settled. The Indexes are described in more detail in File No. SR-CBOE-93-36 and in the Commission order approving the Indexes for options trading on the Exchange.<sup>5</sup> The Exchange represents that it intends to begin trading options on both Indexes on or about November 7, 1995.

**Rebasing of the Indexes.** On July 20, 1995, Standard & Poor's announced that the S&P 500/Barra Growth Index and the S&P 500/Barra Value Index will be rebased effective Friday, July 28, 1995. The Indexes were set at a base value of 10 for December 31, 1974. The new base value for the Indexes will be 35 and all historical values of the Indexes will be adjusted accordingly by a factor of 3.5. The rebasing serves to bring the value of the combined Indexes into line with the value of the S&P 500, the index from which the Indexes are derived.

As an example, the Growth Index and the Value Index closed at 78.64 and 84.59, respectively, on Tuesday, July 25, 1995. On an adjusted basis those levels are 275.24 and 296.07. The sum of those values is 571.31, as compared to the closing level of the S&P 500 on that date of 561.10.

**Position Limits.** Currently, under CBOE Rule 24.4(a), position limits for Growth options and position limits for Value options are 125,000 contracts on the same side of the market, with no more than 75,000 contracts in the series with the nearest expiration date. Positions in both classes of options must be aggregated, pursuant to the Rule, in determining compliance with the position limits. In addition, currently under Interpretation .01 to Rule 24.4, the maximum combined position in the Indexes may not exceed 225,000 same-side of the market option contracts

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> The Exchange submitted Amendment No. 1 to its proposed rule change to reduce the position limits originally proposed in this filing to position limits consistent with the rebasing of the Growth Index and Value Index. The Exchange proposes to amend the contract position limits for the Indexes: (1) From 40,000 contracts on the same side of the market as originally proposed to 36,000 contracts; (2) from 25,000 contracts in the nearest expiration series as originally proposed to 21,500 contracts; and (3) from a 75,000 contract hedge exemption limit as originally proposed to 65,000 contracts. Additionally, Amendment No. 2 changes the name of each Index from S&P/Barra Growth and S&P/Barra Value to S&P 500/Barra Growth and S&P 500/Barra Value, respectively. See Letter from Timothy Thompson, Attorney, CBOE, to John Ayanian, Attorney, Office of Market Supervision, Division of Market Regulation, Commission, dated October 26, 1995.

<sup>4</sup> Exercise limits will be set at the same level as position limits. See CBOE Rule 24.5.

<sup>5</sup> See Securities Exchange Act Release No. 34124 (May 27, 1994), 59 FR 29310 (June 6, 1994).

<sup>11</sup> 15 U.S.C. § 78f(b)(2) (1988).

<sup>12</sup> 17 CFR 200.30-3(a)(12) (1994).

under CBOE's hedge exemption rule provisions.

The rebasing of the Growth Index and the Value Index now makes it necessary to reduce the contract position limits to maintain the appropriate same maximum dollar value afforded under the originally approved limits. In order to reflect the same dollar value as that originally approved, the current position limits would need to be divided by 3.5. Dividing the current level of 125,000 contracts on the same side of the market by 3.5 would yield 35,714 contracts. However, in order to establish position limits of a round number for ease of administration and compliance, the Exchange is proposing an aggregate position limit of 36,000 contracts on the same side of the market for the Growth and Value Indexes. In addition, the Exchange is proposing to similarly reduce the amount of contracts in the series that may be in the nearest expiration date from 75,000 contracts to 21,500 contracts.<sup>6</sup>

The Exchange is also proposing to revise the 225,000 hedge exemption limit under Interpretation .01, as this amount was also designed to have a numerical relationship to the general position limits. The Exchange is proposing that this limit be reduced to 65,000 contracts. The 65,000 contract position limit is 1.805 times the new proposed position limit of 36,000 contracts. Similarly, under the current rule, the 225,000 contract hedge exemption position limit is 1.8 times the 125,000 contract position limit.

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 6(b)(5) in particular in that it will promote just and equitable principles of trade by revising position limits in light of the recent rebasing of the two Indexes.

*(B) Self-Regulatory Organization's Statement on Burden on Competition*

The proposed amendments will not impose any burden on competition.

*(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others*

Comments were neither solicited nor received.

**III. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change**

The Exchange has requested that the proposed rule change, as amended, be given accelerated effectiveness pursuant to Section 19(b)(2) of the Act to accommodate for the trading of Index options on or about November 7, 1995. The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular the requirements of section 6(b)(5) thereunder. Specifically, the Commission believes that the CBOE proposal to reduce the contract position and exercise limits applicable to the Indexes should enhance investor protection and protect the public interest by helping to ensure that market participants cannot control unduly large positions in the Indexes in light of the Indexes' adjusted base values which, otherwise, would increase the manipulation potential of trading options thereon.

The Commission finds good cause for approving the proposed rule change, as amended, prior to the thirtieth day after the date of publication of the notice thereof in the Federal Register. As noted above, the Commission has approved the Value Index and the Growth Index for options trading, and the Exchange intends to list each Index for options trading on or about November 7, 1995. By accelerating approval, the proposed rule change, as amended, can become effective before the Exchange begins trading the applicable Index options and provide market participants adequate notice of the applicable position and exercise limits. Accordingly, the Commission believes that it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve this proposed rule change on an accelerated basis.

For the same reasons, the Commission finds good cause for approving Amendment No. 1 to the proposed rule change prior to the thirtieth day after the date of publication of the notice thereof in the Federal Register. Specifically, Amendment No. 1 proposes to reduce the position limits as originally proposed in this filing to position limits more in line with the rebasing of the Growth Index and Value Index.<sup>7</sup> The Commission believes that these position limits are appropriate in light of the rebasing of the Indexes by a factor of 3.5. Accordingly, the

Commission believes that it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve Amendment No. 1 to the CBOE proposal on an accelerated basis.

The Commission also finds good cause for approving Amendment No. 2 to the proposed rule change prior to the thirtieth day after the date of publication of the notice thereof in the Federal Register. Specifically, Amendment No. 2 proposes to change the name of each Index from S&P/Barra Growth and S&P/Barra Value to S&P 500/Barra Growth and S&P 500/Barra Value, respectively. The Commission notes that changing the name of each Index does not raise any new regulatory issues. Accordingly, the Commission believes that it is consistent with Sections 6(b)(5) and 19(b)(2) of the Act to approve Amendment No. 2 to the CBOE proposal on an accelerated basis.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning the foregoing proposal including Amendment Nos. 1 and 2. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to SR-CBOE-95-64 and should be submitted by November 27, 1995.

*It is therefore ordered*, pursuant to Section 19(b)(2) of Act,<sup>8</sup> that the proposed rule change (File No. SR-CBOE-95-64), as amended, is hereby approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>9</sup>

Margaret H. McFarland,  
Deputy Secretary.

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<sup>6</sup> This new proposed nearest expiration date limit of 21,500 contracts is slightly less than 60% of the new proposed 36,000 contract limit, just as the current nearest expiration date restriction of 75,000 contracts is 60% of the current position limit of 125,000 contracts.

<sup>7</sup> See supra note 3.

<sup>8</sup> 15 U.S.C. 78s(b)(2).

<sup>9</sup> 17 CFR 200.30-3(a)(12).